

## REQUEST FOR APPROVAL OF COMMUNITIZATION AGREEMENT

Klabzuba Oil & Gas Inc.  
Lexington Place  
930 West 1<sup>st</sup> Street  
Ft. Worth TX 76102

Township 36 North, Range 15 East  
Section 8: ALL  
640.00 Acres  
Hill County

State Tract  
Section 8: S½, 320.00 Acres  
Common Schools Trust = 100%

Klabzuba Oil & Gas Inc. has filed a request with the Department for the approval of a communitization agreement to communitize State owned acreage to permit development in conformity with regulations of the Montana Board of Oil and Gas Conservation Commission (BOGC).

A communitization agreement brings together small tracts sufficient for the granting of a well permit under applicable spacing rules. Communitization agreements are not formed until after a well has been drilled and proven to be productive. The communitization agreement provides for distribution of royalties and must be approved and signed by the Department to be effective. Communitization is important in the prevention of drilling of unnecessary and uneconomic wells which would result in physical and economic waste.

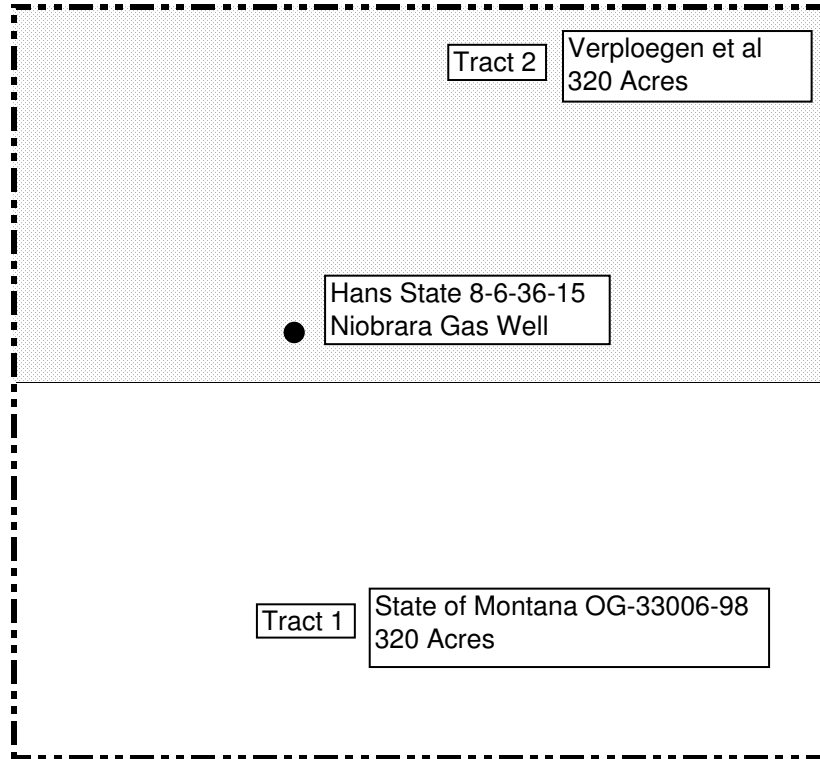
The Hans State 8-6-36-15 well, which is a Niobrara formation gas well, was drilled in the N½ of Section 8. This statewide spacing unit has a total of 640.00 acres. The Department owns 320 acres of the 640.00 mineral acres in the spacing unit that will be communitized. All the mineral owners in the spacing unit are currently sharing in the royalty from this well. The Communitization Agreement includes only the Niobrara formation in Sections 8.

The Department's tract comprises 50% of the communitized area. The communitized production will be allocated to each tract based upon the relationship of its acreage to the total acreage within the communitized area. The Department will consequently receive 6.25% of all gas production (12.5% royalty rate x 50% tract participation).

The Communitization Agreement will allow the State to continue to receive its proper share of production from the spacing unit. Therefore, the Director recommends approval of this Communitization Agreement.

# Township 36 North, Range 15 East

## Section 8



### Recapitulation

<i>Tract No.</i>	<i>Type</i>	<i>Acres</i>	<i>Tract Participation</i>	<i>Royalty %</i>	<i>Owners Interest Decimal</i>
1	State of Montana OG-33006-98	320.00	50.00%	12.50%	0.0625
2	Verploegen et al	320.00	50.00%	12.5 - 15.0%	0.0625 - 0.075
Total		640.00	100.00%		